



TheStandard<sup>SM</sup>  
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An Employee Benefits Proposal for:

## **Shelby County Government**

Standard Insurance Company

November 30, 2006

## Basic Life Plan 1

### COVERED MEMBERS

An active employee of the Employer working 30 hours per week

Class 1: All Eligible active employees

Class 2: All Eligible retirees

### PLAN

	Class 1	Class 2
Benefit Formula	2 X earnings	If retired before June, 1977: 100% benefit as of 5/1/97 If retired after June 1977: 50% benefit prior to age 65
Maximum Benefit	\$350,000	\$200,000
Minimum Benefit	\$2,000	\$0
Age Based Benefit Reduction	To 65% at age 65 To 50% at age 70	None
Guarantee Issue	Full Benefit	Full Benefit
Employer Contribution	70%	70%

### COST

	<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
<b>All Eligible</b> Life	7879	\$490,723,000		0.428		\$210,029.44
<b>Total</b>						\$210,029.44

#### Option with separate Active and Retiree Rates:

	<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
<b>Class 1: Active employees</b>	6,205	\$433,994,000		0.246		\$106,762.52
<b>Class 2: Retirees</b>	1,674	\$ 56,729,000		1.82		\$103,246.78
<b>Total</b>						\$210,009.30

## FEATURES

- The rates will be guaranteed for 3 years.
- MEDEX® Travel Assist is included, offering plan participants access to appropriate medical care and other emergency services when traveling at least 100 miles from home or internationally. MEDEX Travel Assist offers a full range of professional 24-hour medical, legal and travel assistance services.
- Portability of Insurance is included.
- Conversion of Insurance is included.
- *Continuation of Premium for disabled employees is included.*
- An Accelerated Benefit up to 50% of Life and Supplemental Insurance is included.

## CONDITIONS

- Proof of good health is required for employees who are eligible under the current plan but are not enrolled and for employees who enroll more than 31 days after eligibility.
- For class 1: This is not our customary age reduction schedule. As an employer, you are responsible for determining that the schedule you have requested complies with the ADEA. We assume that you have made that determination.
- The rates assume billing is centralized.

## REQUESTED PLAN OPTIONS

### **OPTION 1: Actives same as Plan 1; All retirees with flat \$10,000**

		<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
All Eligible	Life	7879	\$450,734,000		0.32		\$144,235

### **OPTION 2: Actives same as Plan 1; All retirees with flat \$15,000**

		<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
All Eligible	Life	7879	\$459,104,000		0.37		\$169,868

### **OPTION 3: Actives same as Plan 1; All new retirees with flat \$10,000**

		<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
All Eligible	Life	7879	\$450,734,000		0.32		\$144,235

### **OPTION 4: Actives same as Plan 1; All new retirees with flat \$15,000**

		<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
All Eligible	Life	7879	\$459,104,000		0.37		\$169,868

**Standard Suggested Options:**

Remove the Continuation of Premium provision and include waiver of premium on Active employees with eligibility to age 60 and duration to age 65.

		<u>Members</u>	<u>Volume</u>	<b>X</b>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Monthly</u> <u>Premium</u>
<b>All Eligible</b>	Life	7879	\$490,723,000		0.447		\$219,353

## Dependent Life Plan

### COVERED MEMBERS

An active employee of the Employer working 30 hours per week

### PLAN

Spouse Benefit Formula	\$5,000
Child Benefit Formula: Under 6 months	\$5,000
Child Benefit Formula: 6 months or more	\$5,000

### COST

#### Rates: Per Member

Members:	Elective: Paid by each member electing coverage
All Eligible	\$2.82

### PLAN NOTES

- The rates will be guaranteed for 3 years.
- Insurance continues without premium for 5 months after the death of the insured employee.
- Portability of Insurance is included.
- The Right to Convert is included.
- Dependent coverage includes unmarried child(ren) from live birth through age 20, or through age 24 if the child is a full-time registered student.

### CONDITIONS

- Dependent Life must be purchased with Basic Life.

## Additional Life Plan

### COVERED MEMBERS

An active employee of the Employer working 30 hours per week

Class 1: All Eligible active employees

Class 2: All Eligible Retirees in approved closed class

### PLAN

	Class 1	Class 2
Benefit Formula	Choice of \$10,000, \$25,000, \$50,000, \$100,000, \$150,000	Grandfathered Amounts
Age Based Benefit Reduction	To 65% at age 65 To 50% at age 70	None
Guarantee Issue	Full Benefit	Full Benefit
Employer Contribution	0%	0%
Employee Participation	25%	N/A

### COST

	<u>Members</u>	<u>Age</u>	<u>Rate: Per \$1,000</u>	<u>X</u>	<u>Volume</u>	=	<u>Monthly Premium</u>
<b>All Eligible</b>	To Be	<= 29	0.054		To Be		To Be
	Determined	30-34	0.058		Determined		Determined
		35-39	0.072				
		40-44	0.098				
		45-49	0.150				
		50-54	0.229				
		55-59	0.362				
		60-64	0.560				
		65-69	1.099				
		70-74	1.884				
		75 +	2.060				

- Please note: Actives and Retirees are at the same rates.

### FEATURES

- The rates will be guaranteed for 3 years.
- For class 1: An Accelerated Benefit of up to 50% of Life and Supplemental Insurance is included.
- MEDEX® Travel Assist offers plan participants access to appropriate medical care and other emergency services when traveling at least 100 miles from home. MEDEX Travel Assist offers a full range of professional 24-hour medical, legal and travel assistance services.
- Portability of Insurance is included.
- Conversion of Insurance is included.
- Accelerated Benefits are not included for retirees.

## CONDITIONS

- Additional Life may be purchased only with Basic Life.
- Until coverage has been in force for 2 years, death which results from suicide or other intentional self-inflicted injury is not covered (in force for 1 year in CO, not available in WA.)
- Proof of good health is required for: employees who are eligible under the current plan but are not enrolled, employees who enroll more than 31 days after eligibility and elective increases.
- For class 1: This is not our customary age reduction schedule. As an employer, you are responsible for determining that the schedule you have requested complies with the ADEA. We assume that you have made that determination.
- The rates assume billing is centralized.
- Proposal assumes coverage is currently in force.

## SUGGESTED PLAN OPTIONS

- Remove the continuation of premium provision and include waiver of premium on Active employees with eligibility to age 60 and duration to age 65.
- Increase options for employees choice to include additional choices in \$50,000 increments to a maximum benefit of \$350,000 for Active employees only.

		<u>Members</u>	<u>Age</u>	<u>Rate: Per \$1,000</u>	<u>X</u>	<u>Volume</u>	=	<u>Monthly Premium</u>
<b>All Eligible</b>	To Be		<= 29	0.057		To Be		To Be
	Determined		30-34	0.061		Determined		Determined
			35-39	0.080				
			40-44	0.119				
			45-49	0.150				
			50-54	0.290				
			55-59	0.484				
			60-64	0.557				
			65-69	1.091				
			70-74	1.871				
			75 +	2.060				

## Voluntary AD&D Plan

### COVERED MEMBERS

An active employee of the Employer working 30 hours per week

### PLAN

Benefit Formula	Choice of \$25,000, \$50,000, \$75,000 or \$100,000
Age Based Benefit Reduction	To 65% at age 70, To 45% at age 75, To 30% at age 80, To 20% at age 85, To 15% at age 90, To 10% at 95+
Employer Contribution	0%
Minimum Participation	10 enrollees

The amount of insurance for a dependent is determined as follows:

- SPOUSE ONLY - 50% of the insured Member's amount.
- CHILD(REN) ONLY - 15% of the insured Member's amount (not to exceed \$25,000) for each child.
- SPOUSE AND CHILD(REN) - 40% of the insured Member's amount for the spouse and 10% of the insured member's amount for each child.

### COST

		<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per \$1,000</u>	=	<u>Premium</u>
<b>Member</b>	AD&D	TBD	TBD		0.040		TBD
<b>Member Plus Dependent</b>	AD&D	TBD	TBD		0.060		TBD
<b>Total</b>							TBD

### FEATURES

- The rates will be guaranteed for 3 years.
- Eligible dependents of a Member must also be covered if the Member coverage.
- Includes Exposure, Disappearance, Loss of Speech and/or Hearing in both ears, plus Loss of Thumb & Index Finger of the same hand.

## Additional AD&D Plan – Option to replace Voluntary AD&D plan

### COVERED MEMBERS

An active employee of the Employer working 30 hours per week

### PLAN

Benefit Formula	Choice of \$10,000, \$25,000, \$50,000, \$100,000, \$150,000
Age Based Benefit Reduction	To 65% at age 65; To 50% at age 70
Employer Contribution	Full Benefit

### COST

		<u>Members</u>	<u>Volume</u>	<u>X</u>	<u>Rate: Per</u> <u>\$1,000</u>	=	<u>Premium</u>
<b>All Eligible</b>	AD&D	To Be Determined	To Be Determined		0.03		To Be Determined
<b>Total</b>							

### FEATURES

- The rates will be guaranteed for 3 years.
- A Line of Duty benefit is included. This benefit provides eligible public safety officers an additional benefit if they suffer a loss that is the result of a Line of Duty Accident.

### CONDITIONS

- Dependent Spouse and Child AD&D Coverage is included with the following parameters:
  - Dependent AD&D cannot be purchased without Dependent Life.
  - Dependent Coverage is not to exceed 50% of employee amount.
- AD&D includes a Drug and Alcohol exclusion.



## ***Short Term Disability Plan Summary – Shelby County Government***

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<b>Policy Number</b>	642998 – A Effective January 1, 2004
<b>Member Definition</b>	Member means a citizen or resident of the United States or Canada who is a regular, full-time, part-time or durational employee over the age of 18 in active employment in the United States with the Employer, actively working at least 20 hours each week
<b>Benefit Formula</b>	50% of the first \$3,000 of your Predisability Earnings, reduced by Deductible Income.
<b>Maximum Benefit</b>	\$1,500 before reduction by Deductible Income.
<b>Minimum Benefit</b>	\$25
<b>Benefit Waiting Period</b>	<b>Accident:</b> None <b>Sickness:</b> 14 days* *For Contributory insurance for: Members who do not apply during the Enrollment Period, Members who were eligible for insurance under the Prior Plan for more than 31 days but were not insured, and Reinstatement under the Group Policy for Members whose insurance ends because of failure to make a required premium contribution: <b>Accident:</b> None <b>Sickness:</b> During the 12-month period beginning on the date your insurance becomes effective: 60 days; and thereafter: 14 days
<b>Maximum Benefit Period</b>	180 days.
<b>Definition of Disability</b>	You are required to be disabled only from your Own Occupation. You are disabled if as a result of physical disease, injury, pregnancy, or Mental Disorder you are unable to perform with reasonable continuity the material duties of your own occupation and you suffer a loss of at least 20% in your Predisability Earnings when working in your Own Occupation.
<b>Deductible Income</b>	-Work Earnings                      -State Disability Income or similar law -Other Group Insurance        -Retirement Benefits
<b>Premium Contributions</b>	Contributory
<b><i>Covered Indemnity and Rates</i></b>	774,027 0.69 per \$10.00 of STD Benefit



## ***Long Term Disability Plan Summary – Shelby County Government***

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<b>Policy Number</b>	642998 – B Effective January , 2004	
<b>Member Definition</b>	Member means a citizen or resident of the United States or Canada who is a regular, full-time, part-time or durational employee over the age of 18 in active employment in the United States with the Employer, actively working at least 20 hours each week	
<b>Benefit Formula</b>	60% of the first \$12,500 of your Predisability Earnings, reduced by Deductible income	
<b>Benefit Maximum</b>	\$7,500 before reduction by Deductible Income	
<b>Benefit Waiting Period</b>	180 days	
<b>Duration</b>	<u>Age</u>	<u>Maximum Benefit Period</u>
	61 or younger	To age 65, or 3 years 6 months, if longer.
	62	3 years 6 months
	63	3 years
	64	2 years 6 months
	65	2 years
	66	1 year 9 months
	67	1 year 6 months
	68	1 year 3 months
	69 or older	1 year
<b>Definition of Disability</b>	Own Occupation Period : 1 <sup>st</sup> 24 months for which LTD Benefits are paid Any Occupation Period: From the end of the Own Occupation period to the end of the maximum benefit period	
<b>Contributory Status</b>	Noncontributory	
<b>Pre-existing Conditions</b>	3/12	
<b>Limitations</b>	Mental Disorders, Substance Abuse and Other Limited Conditions: Limited to 24 months	
<b><i>Covered Payroll and Rates</i></b>	Monthly Covered Payroll: \$18,120,952 3 Year Rate Guarantee: \$1.84 per \$100 of monthly covered earnings	



## ***Long Term Disability Plan Change Options***

### **12-Month Own Occupation Definition of Disability**

Discount:	3%
Discount Factor:	0.97
Adjusted Renewal Rate:	1.78
Annual Premium Reduction:	\$130,470

### **12-Month Mental & Nervous and Subjective Conditions Limitation**

Discount:	10%
Discount Factor:	0.90
Adjusted Renewal Rate:	1.66
Annual Premium Reduction:	\$391,412

### **Combined Changes from Above**

Discount:	13%
Discount Factor:	0.87
Adjusted Renewal Rate:	1.60
Annual Premium Reduction:	\$521,883

### **Reduction to a 12-Month Eligibility Waiting Period**

The Standard is not offering any discounts for this change based on a thorough analysis of the real impact of this change. Only 1.3% of the claim liability is from employees who have less than 12-months of service. The claims cost savings would be offset by the reduction of premium from this apparent healthy segment of Shelby County's employee population. To exclude this segment would lead to an increased loss ratio.

### **Core/Buy-Up – Employer-paid 50% base plan with an optional employee-paid 60% buy-up plan**

Base Plan:	50% Monthly Benefit – Employer Paid
Estimated Covered Payroll:	\$18,054,903
Rate (per \$100 of Covered Payroll):	1.43
Estimated Monthly Premium:	\$258,185

Buy-Up Plan:	60% Monthly Benefit – Employee Paid
Estimated Covered Payroll (25% participation):	\$4,513,726
Rate (per \$100 of Covered Payroll):	0.81
Estimated Monthly Premium:	\$36,561

- LTD rates for the Base and Buy-Up Plan apply to the total monthly Pre-disability Earnings
- The policy will describe the Base and Buy-Up plans as separate and distinct plans; identified as Plan 1 and Plan 2. Members will be insured either under Plan 1 or Plan 2, but not both. The total cost will be the sum of the Base Plan (Plan 1) and Buy-Up Plan (Plan 2) premiums for each member as determined by the rates shown above.
- For coverage to become effective, 25% of eligible employees must enroll in the Buy-Up Plan.
- Proof of good health is required for employees who enroll in the Buy-Up Plan more than 31 days after eligibility.
- The plan assumes that all benefits in the Base Plan are 100% taxable and employee premium contributions for the Buy-Up Plan are made with post-tax dollars.



## ***Long Term Disability, Short Term Disability, and Term Life Plan Services***

- W2 Preparation Services (we will continue to do this for no additional charge)
- LTD benefit deductions for employee benefit premiums (we will continue to do this for no additional charge)
- Quarterly claim meeting/consultation for new and ongoing claims
- Development of a Return to Work Program to include the following:
  - Help in the assessment and design of an improved or brand new Return to work program;
  - This would also encompass those disability plans which we do not insure, i.e., sick leave, workers comp., etc;
  - Implementation can include the design and delivery of any required training; and
  - An improved or new Return to Work program can also help reduce short term, incidental, and longer term absence.
- Experience Rated Refunding Arrangement for LTD that allows Shelby County to receive a dividend if premium exceeds claim cost and expenses.
- Experience Rated Refunding Arrangement for Term Life
- Proven track record of superior customer service
- Performance Guarantee
- A dedicated Implementation Consultant to integrate Group Life coverage

## Experience Rated Refund and Claim Fluctuation Reserve

The main purpose of a Claim Fluctuation Reserve (CFR) is for rate stabilization. Long Term Disability (LTD) experience can fluctuate wildly from year to year. If LTD experience is excellent, at renewal, Shelby County would probably see a reduced renewal rate. Under a “pooled” arrangement, The Standard would keep the positive remainder. What we are offering is not a pooled arrangement and we refer to it as an Experience Rated Refunding contract. Instead of the positive remainder going to The Standard, it would be placed in a Claim Fluctuation Reserve. A Claim Fluctuation Reserve would be the property of Shelby County and earns interest at short-term interest rates.

There are many benefits of a Claim Fluctuation Reserve. The most important is that it can help support long-term rate stabilization. If claims experience in future year(s) is negative, The Standard can withdraw the lesser of the amount of the deficit or the amount in the CFR (the CFR can never reflect a negative amount). If the LTD rate was reduced after the period of good experience, the CFR withdrawal may allow the lowered rate to continue or not increase as much as otherwise required. It is important to emphasize that a Claim Fluctuation Reserve would be the property of Shelby County at termination (after a one-year run out of experience). Any monies remaining would be refunded to Shelby County.

Other advantages to having a Claim Fluctuation Reserve:

1. Without a Claim Fluctuation Reserve, The Standard would probably not offer refunding on Long Term Disability. If cash refunding is offered, credibility would be very small which means only a small percentage of any positive remainder would be paid with the remaining monies placed in a pooling charge. A Claim Fluctuation Reserve allows 100% credibility so all the positive remainder can be placed in the CFR.
2. Interest is credited annually to the Claim Fluctuation Reserve. The interest rate is normally short term interest rates because monies may need to be withdrawn from the CFR after a year or two.
3. Retention (or The Standard’s expenses to insure a policyholder) include a Risk Charge. For Long Term Disability, The Standard’s normal Risk Charge includes a 10% Contingency Charge to take into account potential volatility in claims experience. As the balance in the Claim Fluctuation Reserve grows, there is less of a need for Risk Charges – the CFR provides protection against any risk. We can offer the reduced Contingency Charges based on the following balances in a CFR:

<u>CFR Balance</u>	<u>Contingency Charge</u>
0	10% of Annual Premium
¼ of Annual Premium	8% of Annual Premium
½ of Annual Premium	6% of Annual Premium
¾ of Annual Premium	3% of Annual Premium
An Annual Premium	0

Reducing the Contingency Charge reduces overall Retention which directly reduces the LTD rate.

4. The Standard, as a stock company, must be concerned with Return on Equity for all its accounts. A positive CFR balance directly reduces equity on the plan which makes target Return on Equity easier to reach and allows the reduced Contingency Charge shown above.
5. If the CFR balance grows to an amount over 50 percent of annual premium (which is somewhat difficult because good experience should be reducing rates over time but it has happened), monies can be removed to increase benefits, reduce premium payments over a period of time or just returned to Shelby County.
6. Many of our groups, especially public groups, appreciate Claim Fluctuation Reserves to possibly keep refunds out of budget consideration.



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## Tenure Summary for All Employees

Total Liability - All Claims		\$9,112,887
Average Tenure (Years)		14.7
Claim Liability	Paid Amounts and Open Reserves	Percentage of Total Liability
For employees with less than 1 year of service	\$117,777	1.3%
For employees with less than 2 years of service	\$268,785	2.9%
For employees with less than 3 years of service	\$547,518	6.0%
For employees with less than 4 years of service	\$724,661	8.0%
For employees with less than 5 years of service	\$985,013	10.8%

## Claim Summary for Correctional Employees

<b>Total # of Claims</b>	
All employees	104
Correctional employees	44
Claims - percentage of total claims	42.3%
<b>Total Liability</b>	
All employees	\$9,112,887
Correctional employees	\$3,821,755
Percentage of Liability	41.9%

## Tenure Data

<b>Average Tenure (Years)</b>	11.8	
	<b>Paid Amounts and Open Reserves</b>	<b>% Liability of Claims within Tenure Segment</b>
<b>Claim Liability</b> for employees with less than 1 year of service	0	
<b>Claim Liability</b> for employees with less than 2 years of service	\$38,466	14.3%
-Percent Liability Correction employees	1.0%	
-Percent Liability All employees	0.4%	
<b>Claim Liability</b> for employees with less than 3 years of service	\$317,199	57.9%
-Percent Liability Correction employees	8.3%	
-Percent Liability All employees	3.5%	
<b>Claim Liability</b> for employees with less than 4 years of service	\$446,630	61.6%
-Percent Liability Correction employees	11.7%	
-Percent Liability All employees	4.9%	
<b>Claim Liability</b> for employees with less than 5 years of service	\$466,416	47.4%
-Percent Liability Correction employees	12.2%	
-Percent Liability All employees	5.1%	